

Consolidated Financial Statements **NAGASE & CO., LTD.**

Year ended March 31, 2022

with Independent Auditor's Report

Financial Section

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Consolidated Balance Sheet

NAGASE & CO., LTD. and Consolidated Subsidiaries (March 31, 2022 and 2021)

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Current assets:			
Cash and time deposits (Notes 18 and 24)	¥ 54,211	¥ 49,254	\$ 442,937
Notes and accounts receivable (Note 18)	289,862	242,558	2,368,347
Inventories (Notes 6 and 7)	157,525	97,242	1,287,074
Other current assets	13,935	13,259	113,857
Less allowance for doubtful accounts	(1,248)	(563)	(10,197)
Total current assets	514,286	401,751	4,202,026
Non-current assets:			
Property, plant and equipment, at cost (Notes 8 and 9):			
Land	20,398	20,054	166,664
Buildings and structures	61,430	59,327	501,920
Machinery, equipment and vehicles	90,748	89,052	741,466
Leased assets	2,337	1,680	19,095
Construction in progress	2,027	2,298	16,562
	176,942	172,413	1,445,723
Less accumulated depreciation	(104,387)	(101,516)	(852,905)
Property, plant and equipment, net (Note 25)	72,554	70,896	592,810
Investments and other assets:			
Investments in securities (Notes 10 and 18):			
Unconsolidated subsidiaries and affiliates	9,017	8,997	73,674
Other	66,583	84,721	544,023
	75,600	93,719	617,698
Long-term loans receivable	24	211	196
Goodwill (Note 25)	29,492	30,216	240,967
Technology-based assets	5,912	7,488	48,305
Retirement benefit asset (Note 13)	3,139	2,929	25,648
Deferred tax assets (Note 14)	3,572	1,903	29,185
Other assets (Note 9)	35,248	31,582	287,997
Less allowance for doubtful accounts	(112)	(112)	(915)
Total investments and other assets	152,879	167,938	1,249,113
Total non-current assets	225,434	238,835	1,841,932
Total assets (Note 25)	¥ 739,720	¥ 640,587	\$6,043,958

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Current liabilities:			
Notes and accounts payable (Note 18)	¥149,036	¥119,941	\$1,217,714
Short-term loans (Notes 11 and 18)	73,121	33,050	597,443
Current portion of long-term loans and finance lease obligations (Notes 11 and 18)	9,152	12,089	74,777
Commercial papers (Notes 11 and 18)	25,000	8,000	204,265
Current portion of bonds payable (Notes 11)	10,000	—	81,706
Accrued income taxes (Note 14)	7,100	3,565	58,011
Accrued expenses	6,479	6,317	52,937
Accrued bonuses for employees	7,648	6,042	62,489
Accrued bonuses for directors and executive officers	497	203	4,061
Other current liabilities	19,799	16,928	161,770
Total current liabilities	307,836	206,139	2,515,205
Long-term liabilities:			
Bonds (Notes 11 and 18)	20,000	30,000	163,412
Long-term loans and finance lease obligations (Notes 11 and 18)	29,256	35,807	239,039
Deferred tax liabilities (Note 14)	12,310	16,077	100,580
Retirement benefit liability (Note 13)	13,238	13,292	108,162
Other long-term liabilities	1,987	838	16,235
Total long-term liabilities	76,791	96,016	627,429
Contingent liabilities (Note 22)			
Net assets:			
Shareholders' equity (Note 16):			
Common stock:			
Authorized — 346,980,000 shares			
Issued — 120,908,285 shares in 2022 and 124,408,285 shares in 2021	9,699	9,699	79,247
Capital surplus	10,639	10,646	86,927
Retained earnings (Notes 23 and 27)	280,015	265,920	2,287,891
Treasury stock, at cost (Note 17) — 881,767 shares in 2022 and 933,995 shares in 2021	(1,534)	(1,503)	(12,534)
Total shareholders' equity	298,820	284,763	2,441,539
Accumulated other comprehensive income:			
Net unrealized holding gain on securities (Note 10)	31,732	43,576	259,270
Deferred gain on hedges (Note 19)	178	72	1,454
Translation adjustments	13,690	1,006	111,856
Retirement benefit liability adjustments (Note 13)	(161)	268	(1,315)
Total accumulated other comprehensive income	45,441	44,924	371,280
Non-controlling interests	10,830	8,743	88,488
Total net assets	355,092	338,431	2,901,315
Total liabilities and net assets	¥739,720	¥640,587	\$6,043,958

See notes to consolidated financial statements.

Consolidated Statement of Income

NAGASE & CO., LTD. and Consolidated Subsidiaries (Years ended March 31, 2022 and 2021)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Net sales (Note 25)	¥780,557	¥625,245	\$6,377,621
Cost of sales (Note 7)	641,062	510,645	5,237,863
Gross profit	139,494	114,600	1,139,750
Selling, general and administrative expenses (Notes 20 and 21)	104,231	92,683	851,630
Operating income (Note 25)	35,263	21,916	288,120
Other income (expenses):			
Interest and dividend income	1,551	1,312	12,673
Interest expense	(1,176)	(1,064)	(9,609)
Equity in losses of affiliates	(1,031)	(327)	(8,424)
Gain on sales of shares of subsidiaries and affiliates	—	2,657	—
Gain on sales of investments in securities (Note 10)	7,037	5,774	57,497
Loss on sales of shares of subsidiaries and affiliates	59	1	482
Gain on sales of investments in capital of subsidiaries and affiliates	314	—	2,566
Loss on devaluation of investments in securities (Note 10)	(1,436)	(155)	(11,733)
Gain on sales of property, plant and equipment	16	86	131
Gain on donation of property, plant and equipment	719	—	5,875
Loss on sales of property, plant and equipment	(177)	(23)	(1,446)
Loss on disposal of property, plant and equipment	(453)	(92)	(3,701)
Loss on impairment of fixed assets (Notes 9 and 25)	(2,974)	(1,824)	(24,299)
Subsidy income	75	163	613
Other, net	1,770	846	14,462
Profit before income taxes	39,557	29,272	323,205
Income taxes (Note 14):			
Current	12,826	7,851	104,796
Deferred	(141)	1,775	(1,152)
Profit	26,872	19,646	219,560
Profit attributable to:			
Non-controlling interests	(932)	(816)	(7,615)
Owners of parent	¥ 25,939	¥ 18,829	\$ 211,937

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

NAGASE & CO., LTD. and Consolidated Subsidiaries (Years ended March 31, 2022 and 2021)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Profit	¥ 26,872	¥19,646	\$219,560
Other comprehensive income (Note 12):			
Net unrealized holding (loss) gain on securities	(11,844)	10,945	(96,773)
Deferred gain on hedges	106	69	866
Translation adjustments	13,623	7	111,308
Retirement benefit liability adjustments	(430)	963	(3,513)
Share of other comprehensive income of affiliates accounted for by the equity method	282	254	2,304
	1,736	12,241	14,184
Comprehensive income	¥ 28,608	¥31,887	\$233,745
Total comprehensive income attributable to:			
Owners of parent	¥ 26,482	¥30,774	\$216,374
Non-controlling interests	¥ 2,126	¥ 1,112	\$ 17,371

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

NAGASE & CO., LTD. and Consolidated Subsidiaries (Years ended March 31, 2022 and 2021)

Millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred gain on hedges	Translation adjustments	Retirement benefit liability adjustments (Note 13)	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2020	¥ 9,699	¥ 10,646	¥ 257,067	¥ (5,071)	¥ 272,342	¥ 32,618	¥ 3	¥ 1,051	¥ (694)	¥ 32,979	¥ 7,921	¥ 313,243
Profit attributable to owners of parent	—	—	18,829	—	18,829	—	—	—	—	—	—	18,829
Cash dividends	—	—	(5,456)	—	(5,456)	—	—	—	—	—	—	(5,456)
Purchases of treasury stock	—	—	—	(952)	(952)	—	—	—	—	—	—	(952)
Disposition of treasury stock	—	0	—	0	0	—	—	—	—	—	—	0
Retirement of treasury stock	—	(0)	(4,520)	4,520	—	—	—	—	—	—	—	—
Changes in parent's ownership interest due to transactions with non-controlling interests	—	(0)	—	—	(0)	—	—	—	—	—	—	(0)
Other changes	—	—	—	—	—	10,957	69	(45)	963	11,944	822	12,767
Balance at April 1, 2021	9,699	10,646	265,920	(1,503)	284,763	43,576	72	1,006	268	44,924	8,743	338,431
Profit attributable to owners of parent	—	—	25,939	—	25,939	—	—	—	—	—	—	25,939
Cash dividends	—	—	(5,876)	—	(5,876)	—	—	—	—	—	—	(5,876)
Purchases of treasury stock	—	—	—	(6,006)	(6,006)	—	—	—	—	—	—	(6,006)
Disposition of treasury stock	—	0	—	0	0	—	—	—	—	—	—	0
Retirement of treasury stock	—	(0)	(5,975)	5,975	—	—	—	—	—	—	—	—
Changes in parent's ownership interest due to transactions with non-controlling interests	—	(0)	—	—	(0)	—	—	—	—	—	—	(0)
Decrease in retained earnings resulting from changes in scope of consolidation	—	(6)	—	—	(6)	—	—	—	—	—	—	(6)
Increase in retained earnings resulting from changes in scope of equity method	—	—	7	—	7	—	—	—	—	—	—	7
Other changes	—	—	—	—	—	(11,843)	106	12,684	(430)	516	2,086	2,603
Balance at March 31, 2022	¥9,699	¥10,639	¥280,015	¥(1,534)	¥298,820	¥ 31,732	¥178	¥13,690	¥(161)	¥45,441	¥10,830	¥355,092

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred gain on hedges	Translation adjustments	Retirement benefit liability adjustments (Note 13)	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2021	\$79,247	\$86,984	\$2,172,727	\$(12,280)	\$2,326,685	\$356,042	\$ 588	\$ 8,220	\$ 2,190	\$367,056	\$71,436	\$2,765,185
Profit attributable to owners of parent	—	—	211,937	—	211,937	—	—	—	—	—	—	211,937
Cash dividends	—	—	(48,010)	—	(48,010)	—	—	—	—	—	—	(48,010)
Purchases of treasury stock	—	—	—	(49,073)	(49,073)	—	—	—	—	—	—	(49,073)
Disposition of treasury stock	—	0	—	0	0	—	—	—	—	—	—	0
Retirement of treasury stock	—	(0)	(48,819)	48,819	—	—	—	—	—	—	—	—
Changes in parent's ownership interest due to transactions with non-controlling interests	—	(0)	—	—	(0)	—	—	—	—	—	—	(0)
Decrease in retained earnings resulting from changes in scope of consolidation	—	(49)	—	—	(49)	—	—	—	—	—	—	(49)
Increase in retained earnings resulting from changes in scope of equity method	—	—	57	—	57	—	—	—	—	—	—	57
Other changes	—	—	—	—	—	(96,764)	866	103,636	(3,513)	4,216	17,044	21,268
Balance at March 31, 2022	\$79,247	\$86,927	\$2,287,891	\$(12,534)	\$2,441,539	\$259,270	\$1,454	\$111,856	\$(1,315)	\$371,280	\$88,488	\$2,901,315

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

NAGASE & CO., LTD. and Consolidated Subsidiaries (Years ended March 31, 2022 and 2021)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Operating activities:			
Profit before income taxes	¥ 39,557	¥ 29,272	\$ 323,205
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization other than amortization of goodwill	11,216	11,008	91,641
Loss on impairment of fixed assets	2,974	1,824	24,299
Amortization of goodwill	2,478	2,344	20,247
Subsidy income	(75)	(163)	(613)
Share of loss of entities accounted for using equity method	1,031	327	8,424
(Decrease) increase in retirement benefit liability	(599)	1,395	(4,894)
Increase in retirement benefit asset	(869)	(1,174)	(7,100)
Interest and dividend income	(1,551)	(1,312)	(12,673)
Interest expense	1,176	1,064	9,609
Exchange gain, net	(778)	(24)	(6,367)
Gain on sales of investments in securities	(7,285)	(8,419)	(59,523)
Loss on valuation of investment securities	1,436	155	11,733
Changes in operating assets and liabilities:			
Notes and accounts receivable	(34,234)	(17,641)	(279,712)
Inventories	(49,346)	(1,034)	(403,187)
Notes and accounts payable	20,465	8,623	167,211
Other, net	4,859	2,554	39,701
Subtotal	(9,544)	28,797	(77,980)
Interest and dividends received	1,926	1,950	15,737
Interest paid	(1,202)	(1,067)	(9,821)
Income taxes paid	(8,956)	(9,288)	(73,176)
Net cash (used in) provided by operating activities	(17,776)	20,391	(145,241)
Investing activities:			
Purchases of property, plant and equipment	(8,830)	(8,864)	(72,146)
Proceeds from sales of property, plant and equipment	326	448	2,664
Purchases of intangible fixed assets included in other assets	(1,624)	(704)	(13,269)
Purchases of investments in securities	(1,317)	(3,260)	(10,761)
Proceeds from sales of investments in securities	7,736	6,027	63,208
Purchases of investments in capital	—	(47)	—
Proceeds from sales of investments in capital	890	57	7,272
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(3,848)	—	(31,440)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	587	8,010	4,796
(Increase) decrease in short-term loans receivable included in other current assets, net	(83)	319	(678)
(Increase) decrease in time deposits, net	(137)	290	(1,119)
Subsidy income	75	163	613
Payments of leasehold and guarantee deposits	(1,352)	—	(11,047)
Other, net	(86)	202	(703)
Net cash (used in) provided by investing activities	(7,664)	2,643	(62,619)
Financing activities:			
Increase in short-term loans, net	33,325	658	272,285
Increase (decrease) in commercial papers, net	17,000	(22,000)	138,900
Proceeds from long-term loans	1,900	4,350	15,524
Repayments of long-term loans	(12,039)	(1,891)	(98,366)
Purchase of treasury stock	(6,006)	(952)	(49,073)
Cash dividends paid	(5,876)	(5,456)	(48,010)
Cash dividends paid to non-controlling interests	(543)	(290)	(4,437)
Other, net	(477)	(285)	(3,897)
Net cash provided by (used in) financing activities	27,282	(25,866)	222,910
Effects of exchange rate changes on cash and cash equivalents	2,942	913	24,038
Net increase (decrease) in cash and cash equivalents	4,783	(1,918)	39,080
Cash and cash equivalents at beginning of the year	48,553	50,471	396,707
Cash and cash equivalents at end of the year (Note 24)	¥ 53,336	¥ 48,553	\$ 435,787

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NAGASE & CO., LTD. and Consolidated Subsidiaries (March 31, 2022)

1. BASIS OF PREPARATION

The accompanying consolidated financial statements of NAGASE & CO., LTD. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. Such

reclassifications had no effect on consolidated profit or net assets.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader, as a matter of arithmetic computation only, at ¥122.39 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2022. This translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and companies that it controls directly or indirectly. Affiliates over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

Certain subsidiaries were excluded from the scope of consolidation because the effect of their sales, net profit or loss, total assets and retained earnings on the accompanying consolidated financial statements was immaterial. The unconsolidated subsidiaries and affiliates not accounted for by the entity method were excluded from the scope of application of the equity method, because their profit or loss and retained earnings attributable to the Company's interest were not material to the consolidated financial statements.

Of the Company's subsidiaries, 34 have a December 31 year end, which is different from that of the Company. The financial statements of 11 subsidiaries have been included in consolidation based on a provisional statement of accounts for a full fiscal year ending March 31. As for the other 23 subsidiaries, adjustments have been made for any significant intercompany transactions that took place during the period between the year end of these subsidiaries and the year end of the Company.

Unrealized intercompany gains among the Company and the consolidated subsidiaries have been entirely eliminated and the portion attributable to non-controlling interests has been charged to non-controlling interests.

(b) Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified foreign currency forward exchange contracts are translated at the corresponding contract rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. Gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates in effect at the respective transaction dates. Foreign exchange gain or loss is credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding non-controlling interests, net unrealized holding gain on securities, and deferred gain or loss on hedges are translated at their historical exchange rates. Revenue and

expense accounts are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating financial statements whose accounts are denominated in foreign currencies are not included in the determination of net income but are reported as "Translation adjustments" as a component of accumulated other comprehensive income or loss in the accompanying consolidated balance sheets.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments which are readily convertible to cash and subject to an insignificant risk of any change in their value, which were purchased with an original maturity of three months or less.

(d) Inventories

Inventories are stated at the lower of cost or the net selling value, cost being determined primarily by the moving-average method.

(e) Investments in Securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income or loss. Non-marketable securities classified as other securities are carried at cost determined by the moving-average method.

(f) Property, Plant and Equipment and Depreciation (except for leased assets)

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is calculated by the straight-line method based on the estimated useful lives of the respective assets.

The estimated useful lives of the principal assets are as follows:

Buildings (other than structures attached to the buildings)	15 to 50 years
Machinery and equipment	2 to 20 years

(g) Intangible Assets (except for leased assets)

Technology-based assets recognized upon acquisition are amortized on a straight-line basis over 13 to 17 years.

Costs incurred for computer software obtained for internal use are capitalized and amortized on a straight-line basis over an estimated useful life of 5 years.

(h) Goodwill

Goodwill is amortized over a period not exceeding 20 years on a straight-line basis. When immaterial, goodwill is charged to income as incurred.

(i) Leased Assets

Leased assets under finance lease contracts which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method over the respective lease terms.

(j) Allowance for Doubtful Accounts

The Company and its consolidated subsidiaries provide allowances for doubtful accounts based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific doubtful accounts from customers experiencing financial difficulties.

(k) Income Taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred tax assets and liabilities are computed based on the temporary differences between the financial reporting and the tax bases of the assets and liabilities that will result in taxable or deductible amounts in the future. Computations of deferred tax assets and liabilities are based on the tax rates which have been enacted as of the balance sheet date. The Company and certain domestic consolidated subsidiaries have adopted the consolidated taxation system (the Company is the taxable entity), which allows companies to make tax payments on the combined profits of the parent company and its wholly owned domestic subsidiaries.

(l) Accrued Bonuses for Employees

Accrued bonuses for employees are provided based on the estimated amount of bonuses to be paid to employees in the following fiscal year which is attributable to the current fiscal year.

(m) Accrued Bonuses for Directors and Executive Officers

Accrued bonuses for directors and executive officers are provided based on the estimated amount of bonuses to be paid to directors and executive officers in the following fiscal year which is attributable to the current fiscal year.

(n) Retirement Benefit Liability

Retirement benefit liability is provided based on the amount of the retirement benefit obligation less estimated pension plan assets at the end of the fiscal year. The estimated benefit is attributed to each period based on the plan's benefit formula.

Prior service cost is charged to income in the fiscal year in which such cost is recognized for financial reporting purposes. Actuarial differences are principally credited or charged to income in the fiscal year following the fiscal year in which such differences are recognized for financial reporting purposes.

(o) Accounting for Significant Revenues and Expenses

The following is a description of the principal performance obligations of the Company and its consolidated subsidiaries' principal businesses relating to revenue from contracts with customers and the usual timing at which point such performance obligations are satisfied (the usual time at which revenue is recognized).

Sales of merchandise and products are classified based on the reportable segments and revenue is recognized primarily at the time the merchandise and products are delivered to the customer, since the risks and economic value of ownership of the products are transferred and the right to receive payment is established at that time. In addition, the Group may act as an

agent in certain transactions. The consideration from the customer is received primarily within one year of satisfying the performance obligation and does not include a significant financing component.

When the Group is acting as a principal in a transaction, revenue is recognized at a gross amount of consideration received from the customer, and when the Group is acting as an agent for a third party, revenue is presented in a net amount of fees received, which is the gross amount of consideration received from the customer less the amount collected for the third party.

(p) Derivatives and Hedging Activities

Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets. Foreign currency receivables and payables hedged by qualified foreign currency forward exchange contracts are translated at the corresponding foreign exchange contract rates ("allocation method"). Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying loans.

Derivative financial instruments are utilized principally in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and interest-rate swaps are also utilized to mitigate the risk of fluctuation in interest rates on loans. Hedging instruments are foreign currency forward exchange contracts, foreign currency deposits, foreign currency loans and interest-rate swaps. Hedged items are foreign currency receivables and payables, forecast transactions and interest rates on loans from financial institutions.

The Company and its consolidated subsidiaries (collectively, the "Group") manage derivative transactions in accordance with internal management rules. Under these rules, the Group conducts foreign currency forward exchange contracts within a range of actual demand of accounts receivable, accounts payable and actual transactions in foreign currencies. Execution and management of interest-rate swaps are based on internal management rules and hedged items of interest-rate swaps are identified by individual contracts.

The Company and certain consolidated subsidiaries assess the effectiveness of the hedging activities based on a comparison of the accumulated fluctuations of the hedged items and those of the hedging instruments in the period from the start of the hedging activities to the assessment date. However, with regard to interest-rate swaps which meet certain conditions, the evaluation of effectiveness is omitted.

(q) Research and Development Costs

Research and development costs are charged to income when incurred.

(r) Distributions of Retained Earnings

Dividends and other distributions of retained earnings are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which such distributions are applicable. The accompanying consolidated financial statements do not, however, reflect the applicable distributions of retained earnings as approved by the shareholders subsequent to the fiscal year end. (Refer to Note 27.)

in arranging the provision of goods or services by another party, such sales to customers previously recorded on a gross basis shall be offset by the corresponding cost of sales, and revenue shall be stated on a net basis.

As a result, net sales and cost of sales each for the years ended March 31, 2022 and 2021 decreased by ¥244,835 million (\$2,000,449 thousand) and ¥204,995 million (\$1,851,639 thousand), respectively. Please note that this change has no impact on profit or loss for the current fiscal year, nor on the amount of net assets.

3. ACCOUNTING CHANGES

(a) Application of Accounting Standards for Revenue Recognition

At the beginning of the current fiscal year, the Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020). As a result, revenue is now recognized as the amount expected to be received in exchange for promised goods or services at the time of the transfer of their control to the customer.

As a result, in transactions for which the Company's performance obligations in its contracts with customers are determined to be services as an agent

(b) Application of Accounting Standard for Fair Value Measurement

As of the beginning of the current fiscal year, the Company has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019). In accordance with the transitional treatment prescribed in paragraph 19 of the Accounting Standard for Fair Value Measurement and paragraph 44-2 of Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July

4, 2019), new accounting policies prescribed by the Accounting Standard for Fair Value Measurement have been adopted prospectively. This change had no impact on the consolidated financial statements.

Further, information in the notes relating to the breakdown, etc. by appropriate fair value classification of financial instruments is presented in Note 18 "FINANCIAL INSTRUMENTS."

4. SIGNIFICANT ACCOUNTING ESTIMATES

Assessment of impairment of property, plant and equipment and intangible fixed assets

(a) Amounts recorded in the consolidated financial statements as of March 31, 2022 and 2021, and for the years then ended are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Property, plant and equipment	¥72,554	¥70,896	\$592,810
Intangible fixed assets	65,070	64,598	531,661
Impairment losses	2,974	1,824	24,299

(b) Information about significant accounting estimates pertaining to identified items

(i) Method of calculation

Non-current assets are grouped into the smallest units that generate cash flows, and are measured for impairment if any indication of impairment exists and, if so, whether an impairment loss should be recognized.

For the grouping of non-current assets, idle assets are grouped individually, and business assets are grouped mainly by company or plant. Goodwill is principally allocated to larger unit that includes related business-use assets.

Undiscounted future cash flows used to determine whether impairment losses need to be recognized are calculated in consideration of main assets' economic useful lives, etc., based on future business plans.

Impairment losses are measured by calculating the recoverable amount of the relevant asset or asset group as the higher of net

realizable value or the value in use, and the difference between the book value and the recoverable amount is recorded as an impairment loss for the current fiscal year. The discount rate used for the calculation of the value in use is basically determined using the time value of money taking into account the risk related to the business.

(ii) Key assumptions used in the calculation

The key assumptions are the projected sales and costs of sales included in future business plans, and the discount rate used to calculate the value in use.

(iii) Effects on consolidated financial statements for the next fiscal year

If the actual profit or loss of each asset or asset group falls below the business plan, or if there is a significant change in the assumptions on which future business plans are based, the recoverable amount may fall below the book value and an impairment loss may be recognized in the next fiscal year.

5. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Accounting Standards for Fair Value Measurement, etc.

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, issued on June 17, 2021)

(a) Overview

The revised "Guidance on Accounting Standard for Measurement of Fair Value" (ASBJ Guidance No. 31 issued on June 17, 2021) is a revision of the previous July 4, 2019 guidance. As consultations with related parties and other studies on "calculation of the market value of investment trusts" were considered to take a certain period of time and also certain considerations were required for notes on the fair value of "investments in partnerships, etc.,

recorded on the balance sheet at the net amount of the equity interest," the guidance had been scheduled to be evaluated for about a year after the original version was issued.

(b) Scheduled date of adoption

The Company expects to adopt the implementation guidance from the beginning of the fiscal year ending March 31, 2023.

(c) Impact of adoption

The Company is currently evaluating the effect of the adoption of the "Implementation Guidance on Accounting Standard for Fair Value Measurement."

6. INVENTORIES

Inventories at March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Merchandise and finished goods	¥142,590	¥88,130	\$1,165,046
Work in process	2,401	1,654	19,618
Raw materials and supplies	12,533	7,457	102,402
Total	¥157,525	¥97,242	\$1,287,074

7. LOSS ON DEVALUATION OF INVENTORIES INCLUDED IN COST OF SALES

The balance of inventories at the end of the year is the amount after writing down book values due to decline in profitability and following loss on devaluation of inventories is included in cost of sales for the year ended March 31, 2022 and 2021:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Loss on devaluation of inventories included in cost of sales	¥622	¥1,829	\$5,082

8. REDUCTIONS IN ACQUISITION COSTS DUE TO SUBSIDIES

The amounts of subsidies received from the Japanese national government and deducted from the acquisition costs of property, plant and equipment at March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Buildings and structures	¥ 433	¥ 401	\$ 3,538
Machinery, equipment and vehicles	774	726	6,324
Land	190	190	1,552
Total	¥1,398	¥1,318	\$11,423

9. LOSS ON IMPAIRMENT OF FIXED ASSETS

Loss on impairment of fixed assets for the years ended March 31, 2022 and 2021 was as follows:

Major use	Classification	Area	Millions of yen	Thousands of U.S. dollars
			2022	2022
Goodwill, business-use assets for product and manufacturing process development in the resin field	Goodwill, machinery, equipment and vehicles, and other	Wisconsin, USA	¥2,911	\$23,785
Goodwill related to water soluble support materials for 3D printing production and development business	Goodwill	Wisconsin, USA	63	515
Total			¥2,974	\$24,299

Major use	Classification	Area	Millions of yen
			2021
Business-use assets for manufacturing and selling of color formers	Buildings and structures, machinery, equipment and vehicles and other	Hokuriku	¥ 632
Business-use assets for manufacturing and selling of color formers	Buildings and structures, machinery, equipment and vehicles and other	Tennessee, USA	211
Business-use assets for polyimide film glass bonding business	Machinery, equipment and vehicles and other	Taipei, Taiwan	951
Business-use assets for manufacturing and selling of rechargeable battery systems	Buildings and structures, machinery, equipment and vehicles, and other	Tokai	18
Business-use assets for processing of thin glass panels	Buildings and structures, machinery, equipment and vehicles, and other	Fujian, China	2
Idle assets	Land	Tokai etc.	7
Total			¥1,824

The Company and its consolidated subsidiaries group fixed assets for business use principally based on business management segments. Fixed assets to be disposed of and idle assets are grouped individually as the smallest cash-generating units.

For the year ended March 31, 2021, due to decreasing profitability, the carrying values of certain fixed assets for business use were reduced to their recoverable amounts. As for idle assets, due to a declining fair value, the carrying fair values were reduced to their recoverable amounts.

The recoverable amounts were measured at the net selling value or the value in use. The recoverable amounts for business-use assets for the color former manufacturing and polyimide film and glass lamination were measured at the net selling value. The net selling value was calculated based on the

appraisal value published by the tax authorities or the real estate appraisers, or estimated sales value.

For the year ended March 31, 2022, the book value was reduced to the recoverable amount because the Company no longer expects to generate the initially anticipated earnings.

The recoverable amounts were measured at the net selling value or the value in use. Net selling value is based on the assessed value for property tax purposes or the appraised value of real estate. Goodwill related to the product and manufacturing process development business in the resin segment was measured based in the value in use.

The future cash flows are discounted at a rate of 19.0%.

10. INVESTMENTS IN SECURITIES

(a) Marketable securities classified as other securities at March 31, 2022 and 2021 are summarized as follows:

	Millions of yen					
	2022			2021		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥57,951	¥13,108	¥44,842	¥77,661	¥15,838	¥61,822
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	2,560	2,810	(249)	835	1,010	(174)
Total	¥60,511	¥15,918	¥44,592	¥78,496	¥16,848	¥61,648

	Thousands of U.S. dollars		
	2022		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$473,495	\$107,100	\$366,386
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	20,917	22,959	(2,034)
Total	\$494,411	\$130,060	\$364,343

"Acquisition costs" in the above table represent the carrying value after recognizing impairment losses.

(b) Securities classified as other securities whose market value is not available and not included in the table (a) at March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
	Carrying value	Carrying value	Carrying value
Market value not determinable:			
Unlisted equity securities	¥6,071	¥6,225	\$49,604
Total	¥6,071	¥6,225	\$49,604

(c) Proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Proceeds from sales	¥7,736	¥6,217	\$63,208
Gain on sales	7,037	5,774	57,497
Loss on sales	6	10	49

(d) A breakdown of loss on devaluation of investments in securities for the years ended March 31, 2022 and 2021 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Loss on devaluation of investments in securities*			
Securities classified as other securities	¥1,436	¥155	\$11,733
Total loss on devaluation of investments in securities	¥1,436	¥155	\$11,733

* Loss on devaluation of investments in securities is recorded on securities with market value whose market value at the end of the fiscal year has declined by 50% or more from its acquisition cost, or whose market value has declined by 30% or more but less than 50% based on the amount deemed unrecoverable.

In addition, loss on devaluation of investments in securities is recorded on securities whose market value is not available by writing down the carrying value to fair value when the decline in fair value is deemed to be unrecoverable considering the financial position of the issuers, etc., of the securities.

11. SHORT-TERM LOANS, BONDS, LONG-TERM LOANS, COMMERCIAL PAPERS AND FINANCE LEASE OBLIGATIONS

Short-term loans at March 31, 2022 and 2021 principally represented loans and commercial papers in the form of deeds at weighted-average annual interest rates of 1.14% and 1.33% per annum, respectively.

Long-term loans, bonds and finance lease obligations at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Unsecured loans from banks and insurance companies, payable in Yen, U.S. dollars, and Euros due through 2032, at rates from 0.15% to 10.00%	¥ 36,997	¥ 46,539	\$ 302,288
Unsecured bonds in Yen, due 2022, at a rate of 0.539%	10,000	10,000	81,706
Unsecured bonds in Yen, due 2024, at a rate of 0.150%	10,000	10,000	81,706
Unsecured bonds in Yen, due 2029, at a rate of 0.290%	10,000	10,000	81,706
Lease obligations	1,411	1,357	11,529
	68,408	77,896	558,935
Less current portion	(19,152)	(12,089)	(156,483)
Total	¥ 49,256	¥ 65,807	\$ 402,451

The aggregate annual maturities of bonds, long-term loans and finance lease obligations subsequent to March 31, 2022 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2023	¥19,152	\$156,483
2024	1,627	13,294
2025	17,238	140,845
2026	5,061	41,351
2027	15,041	122,894
2028 and thereafter	10,286	84,043
Total	¥68,408	\$558,935

In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Lines of credit	¥20,000	¥20,000	\$163,412
Credit utilized	—	—	—

12. OTHER COMPREHENSIVE INCOME (LOSS)

Reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2022 and 2021 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Net unrealized holding (loss) gain on securities:			
Amount arising during the year	¥(10,058)	¥20,245	\$ (82,180)
Reclassification adjustments for gains and losses realized in the statement of income	(6,800)	(4,767)	(55,560)
Amount before tax effect	(16,858)	15,477	(137,740)
Tax effect	5,013	(4,532)	40,959
Net unrealized holding (loss) gain on securities	(11,844)	10,945	(96,773)
Deferred gain on hedges:			
Amount arising during the year	125	92	1,021
Reclassification adjustments for gains and losses realized in the statement of income	27	7	221
Amount before tax effect	152	99	1,242
Tax effect	(46)	(30)	(376)
Deferred gain on hedges	106	69	866
Translation adjustments:			
Amount arising during the year	13,623	7	111,308
Reclassification adjustments for gains and losses realized in the statement of income	—	—	—
Amount before tax effect	13,623	7	111,308
Tax effect	—	—	—
Translation adjustments	13,623	7	111,308
Retirement benefit liability adjustments:			
Amount arising during the year	(218)	594	(1,781)
Reclassification adjustments for gains and losses realized in the statement of income	(396)	796	(3,236)
Amount before tax effect	(614)	1,390	(5,017)
Tax effect	184	(427)	1,503
Retirement benefit liability adjustments	(430)	963	(3,513)
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	282	254	2,304
Total other comprehensive loss	¥ 1,736	¥12,241	\$ 14,184

13. RETIREMENT BENEFIT PLANS

(a) Outline of retirement benefit plans for employees

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., defined benefit pension plans and lump-sum payment plans. Certain overseas consolidated subsidiaries also have defined benefit plans. Also, the Company and certain consolidated subsidiaries have defined contribution pension plans. In addition to the retirement benefit plans described above, the Company and its consolidated subsidiaries pay additional retirement benefits under certain conditions.

(b) Defined benefit plans

The changes in the retirement benefit obligation for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Balance at the beginning of the year	¥34,457	¥34,228	\$281,534
Service cost	1,299	1,288	10,614
Interest cost	257	245	2,100
Actuarial differences	20	340	163
Retirement benefits paid	(1,750)	(1,270)	(14,299)
Changes in scope of consolidation	(94)	(408)	(768)
Other	28	33	229
Balance at the end of the year	¥34,218	¥34,457	\$279,582

The changes in plan assets for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Balance at the beginning of the year	¥24,093	¥22,305	\$196,854
Expected return on plan assets	484	452	3,955
Actuarial differences	(198)	934	(1,618)
Contributions by the Company and its consolidated subsidiaries	761	1,070	6,218
Retirement benefits paid	(1,043)	(684)	(8,522)
Other	21	15	172
Balance at the end of the year	¥24,119	¥24,093	\$197,067

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2022 and 2021 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Funded retirement benefit obligation	¥ 21,481	¥ 21,671	\$ 175,513
Plan assets at fair value	(24,119)	(24,093)	(197,067)
	(2,637)	(2,422)	(21,546)
Unfunded retirement benefit obligation	12,736	12,786	104,061
Net retirement benefit liability in the balance sheet	10,098	10,363	82,507
Retirement benefit liability	13,238	13,292	108,162
Retirement benefit asset	(3,139)	(2,929)	(25,648)
Net retirement benefit liability in the balance sheet	¥ 10,098	¥ 10,363	\$ 82,507

The components of retirement benefit expenses for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Service cost	¥1,299	¥1,288	\$10,641
Interest cost	257	245	2,100
Expected return on plan assets	(484)	(452)	(3,955)
Amortization of actuarial differences	(396)	796	(3,236)
Retirement benefit expense	¥ 676	¥1,877	\$ 5,523

Actuarial differences included in other comprehensive income (loss) (before tax effect) for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Actuarial differences	¥(614)	¥1,390	\$(5,017)

Unrecognized actuarial differences included in accumulated other comprehensive income (before tax effect) as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Unrecognized actuarial differences	¥(218)	¥400	\$(1,781)

The allocation of plan assets, by major category, as a percentage of total plan assets at fair value as of March 31, 2022 and 2021 is as follows:

	2022	2021
Bonds	59%	59%
Equity securities	23	23
Alternative investments*	16	9
Other	2	9
Total	100%	100%

* "Alternative investments" consist of insurance-linked securities and private REITs.

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and expected long-term rate of return from multiple plan assets at present and in the future.

The assumptions used in accounting for the above plans were as follows:

	2022	2021
Discount rate	0.8%	0.8%
Expected long-term rate of return on plan assets	2.0%	2.0%

(c) Defined contribution plans

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Contributions to defined contribution plans by the Company and its consolidated subsidiaries	¥592	¥494	\$4,837

14. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes, which, in the aggregate, resulted in statutory tax rates of approximately 30.6% for the years ended March 31, 2022 and 2021.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2022 and 2021 differ from the statutory tax rates for the following reasons:

	2022	2021
Statutory tax rates	30.6%	30.6%
Adjustments for:		
Expenses not deductible for income tax purposes	1.7	1.2
Dividends and other income deductible for income tax purposes	(5.5)	(8.9)
Net adjustment resulting from elimination of dividend income upon consolidation	5.5	8.6
Different tax rates applied at overseas subsidiaries	(3.8)	(3.2)
Tax credit	(1.1)	(1.1)
Amortization of goodwill	1.9	2.5
Loss on impairment of goodwill	0.8	—
Adjustment of book value of shares of subsidiaries for consolidated taxation system	(0.1)	2.7
Equity in losses of affiliates	0.8	0.3
Valuation allowance	0.8	0.8
Other, net	0.5	(0.6)
Effective tax rates	32.1%	32.9%

The significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities at March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Deferred tax assets:			
Accrued bonuses for employees	¥ 1,888	¥ 1,492	\$ 15,426
Allowance for doubtful accounts	110	194	899
Unrealized gain on inventories	728	609	5,948
Accrued enterprise taxes	345	265	2,819
Tax loss carryforwards	3,034	3,158	24,790
Retirement benefit liability	3,018	3,069	24,659
Investments in securities	2,298	1,274	18,776
Loss on impairment of fixed assets	941	1,027	7,689
Other	3,731	3,827	30,485
Gross deferred tax assets	16,098	14,919	131,530
Valuation allowance	(6,370)	(4,867)	(52,047)
Total deferred tax assets	9,727	10,052	79,475
Deferred tax liabilities:			
Technology-based assets	(1,801)	(2,280)	(14,715)
Deferred capital gain on property	(1,055)	(1,139)	(8,620)
Reserve for special depreciation	(99)	(150)	(809)
Undistributed earnings of subsidiaries and affiliates	(406)	(610)	(3,317)
Revaluation of land	(291)	(290)	(2,378)
Net unrealized holding gain on securities	(13,276)	(18,292)	(108,473)
Other	(1,534)	(1,462)	(12,534)
Total deferred tax liabilities	(18,464)	(24,226)	(150,862)
Net deferred tax liabilities	¥ (8,737)	¥(14,174)	\$ (71,387)

(Accounting for corporate and local income taxes or tax effect accounting related to these taxes)

The Company and some of its consolidated subsidiaries had previously applied the consolidated taxation system, but due to the submission of a notification of non-application of the group tax sharing system during the current fiscal year, the Company will shift to the non-consolidated taxation system from the following fiscal year. Accordingly, based on "Practical Solution on Accounting and Disclosure Under the Group Tax Sharing System" (Practical Solution No. 42, August 12, 2021), accounting and disclosure for tax effect accounting

related to corporate and local income taxes are based on the assumption that the non-consolidated taxation system will be applied from the next fiscal year.

Accounting and disclosure regarding corporate and local income taxes are in accordance with "Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)" (PITF No. 5, February 16, 2018) and "Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (PITF No. 7, February 16, 2018) since the consolidated taxation system was applied in the current fiscal year.

15. REVENUE RECOGNITION

(a) Information on disaggregation of revenue from contracts with customers

Information on disaggregation of revenue from contracts with customers is presented in the Segment Information. (Refer to Note 25.)

(b) Information that forms the basis for understanding revenues from contracts with customers

The information that forms the basis for understanding revenues is presented in the Summary of significant accounting policies. (Refer to Note 2(o).)

(c) Information about the relationship between the fulfillment of performance obligations based on the contract with the customer and the cash flow generated from the contract, and the amount and recognition timing of revenue from the contract with the customer existing at the end of the current consolidated fiscal year expected to be recognized in the following consolidated fiscal year

(i) Contract balances

The following is a breakdown of contract balances of the Company and its consolidated subsidiaries for the current fiscal year. In the consolidated balance sheets, receivables from contracts with customers are included in "Notes and accounts receivable" and contract liabilities are included in "Other current liabilities." At the end of the previous consolidated fiscal year and the end of the current consolidated fiscal year, the beginning balance of contract liabilities were transferred to revenue by the end of the fiscal year, and the amount carried forward from the next consolidated fiscal year onward is not significant.

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Receivables from contracts with customers	¥289,862	¥242,558	\$2,368,347
Contract liabilities	3,789	3,041	30,958

As at March 31, 2022, Accounts receivable and Notes receivable from contracts with customers included in the table above are ¥253,120 million (\$2,068,143 thousand) and ¥36,742 million (\$300,204 thousand), respectively.

(ii) Transaction price allocated to remaining performance obligations

Since there are no transactions with individual expected contract terms exceeding one year, the practical expedient method is applied and information on remaining performance obligations is omitted. There is no material consideration with respect to contracts with customers that is not included in the transaction price.

16. SHAREHOLDERS' EQUITY

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account.

Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's capital reserve included in capital surplus at March 31,

2022 amounted to ¥9,634 million (\$78,716 thousand). In addition, the Company's legal reserve included in retained earnings at March 31, 2022 amounted to ¥2,424 million (\$19,806 thousand).

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding 50% of the proceeds of the sale of new shares as additional paid-in capital.

Movements in common stock during the years ended March 31, 2022 and 2021 are summarized as follows:

	Number of shares			
	2022			
	April 1, 2021	Increase	Decrease	March 31, 2022
Common stock	124,408,285	—	3,500,000	120,908,285
2021				
	April 1, 2020	Increase	Decrease	March 31, 2021
Common stock	127,408,285	—	3,000,000	124,408,285

17. TREASURY STOCK

Movements in treasury stock during the years ended March 31, 2022 and 2021 are summarized as follows:

	Number of shares			
	2022			
	April 1, 2021	Increase	Decrease	March 31, 2022
Treasury stock	933,995	3,447,833	3,500,061	881,767
2021				
	April 1, 2020	Increase	Decrease	March 31, 2021
Treasury stock	3,396,695	537,380	3,000,080	933,995

The increase in treasury stock includes 3,447,500 shares resulting from the purchases of treasury stock by resolution of the Board of Directors and 333 shares resulting from the purchase of shares less than one voting unit for the year ended March 31, 2022. The decrease in treasury stock includes 3,500,000 shares resulting from the retirement of treasury stock by resolution of the Board of Directors and 61 shares resulting from the disposition of shares less than one voting unit for the year ended March 31, 2022.

The increase in treasury stock includes 537,100 shares resulting from the purchases of treasury stock by resolution of the Board of Directors and 280 shares resulting from the purchase of shares less than one voting unit for the year ended March 31, 2021. The decrease in treasury stock includes 3,000,000 shares resulting from the retirement of treasury stock by resolution of the Board of Directors and 80 shares resulting from the disposition of shares less than one voting unit for the year ended March 31, 2021.

18. FINANCIAL INSTRUMENTS

(a) Policy for financial instruments

The Group invests excess funds in highly secure and short-term financial assets, whose principal is guaranteed to be recoverable. With regard to financing policy, short-term working funds are raised by bank borrowings or issuance of commercial papers and long-term funds are raised by bank borrowings and the issuance of bonds. The policy for derivative transactions is that those are utilized to mitigate the fluctuation risk related to foreign currency exchange rates arising from the receivables and payables denominated in foreign currencies, and fluctuation risk related to interest rates with respect to loans payable, and derivative transactions are not carried out for speculative purposes.

(b) Types of financial instruments, related risk and risk management for financial instruments

Receivables such as trade notes and accounts receivable are exposed to customers' credit risks. With regard to this risk, the Group manages the settlement date by each customer, and establishes credit limits by each customer based on the Group's internal credit rating policy and monitors outstanding balances. The Group establishes system under which the credit status by each customer is reviewed at least once a year and the sales limit amount updated as necessary.

In the cases of notes and accounts receivable or payable denominated in foreign currencies, foreign currency forward exchange contracts are used to hedge the risk of fluctuation. However, for foreign currency transactions denominated in the same currency involving either payables or receivables, foreign currency forward exchange contracts are used solely for the netted position.

Investments in securities are subject to market price fluctuation risk. However, these are mainly equity securities of other companies with which the Group has business relationships. The Group regularly monitors both their fair value and the financial condition of the issuer. The Group also reviews as needed the condition of its holdings with concern to the status of business and financial transactions.

Short-term loans are raised primarily in connection with business activities. Long-term loans and bonds are taken out principally for the purpose of

making capital spending, investments and financing. Loans with variable interest rates are subject to the risk of fluctuating interest rates. However, to reduce such risk, the Group utilizes derivatives (interest-rate swap transactions) as a hedging instrument.

Derivatives include foreign currency forward exchange contracts to manage fluctuation risk in foreign currency exchange rates and interest-rate swaps to manage fluctuation risk of interest rates related to the interest payments for bank loans.

In addition, notes and accounts payable and bank loans are exposed to liquidity risk. However, the Group manages such risk by monitoring the balance of inflow and outflow of cash and establishing liquidity on hand in excess of half of the amount of monthly net sales.

(c) Fair value of financial instruments

The carrying value of financial instruments on the consolidated balance sheets, fair value and the differences as of March 31, 2022 and 2021, are shown in the following table. Financial instruments for which fair value is deemed extremely difficult to determine are not included.

	Millions of yen		
	2022		
	Carrying value	Fair value	Difference
Assets:			
Notes and accounts receivable	¥289,862	¥289,862	¥ —
Investments in securities* ² :			
Other securities	60,511	60,511	—
Total assets	¥350,374	¥350,374	¥ —
Liabilities:			
Notes and accounts payable	¥149,036	¥149,036	¥ —
Bonds	20,000	19,820	(180)
Long-term loans	28,244	27,992	(251)
Total liabilities	¥197,280	¥196,849	¥(431)
Derivatives* ³ :			
Not subject to hedge accounting	¥ (150)	¥ (150)	¥ —
Subject to hedge accounting	341	341	—
Total derivative transactions	¥ 191	¥ 191	¥ —

	Millions of yen		
	2021		
	Carrying value	Fair value	Difference
Assets:			
Cash and time deposits	¥ 49,254	¥ 49,254	¥ —
Notes and accounts receivable	242,558	242,558	—
Investments in securities* ² :			
Other securities	78,496	78,496	—
Total assets	¥370,308	¥370,308	¥ —
Liabilities:			
Notes and accounts payable	¥119,941	¥119,941	¥ —
Short-term loans	33,050	33,050	—
Current portion of long-term loans	12,025	12,025	—
Commercial papers	8,000	8,000	—
Bonds	30,000	29,899	(101)
Long-term loans	34,514	34,528	13
Total liabilities	¥237,531	¥237,443	¥ (87)
Derivatives* ³ :			
Not subject to hedge accounting	¥ (594)	¥ (594)	¥ —
Subject to hedge accounting	56	56	—
Total derivative transactions	¥ (537)	¥ (537)	¥ —

	Thousands of U.S. dollars		
	2022		
	Carrying value	Fair value	Difference
Assets:			
Notes and accounts receivable	\$2,368,347	\$2,368,347	\$ —
Investments in securities* ² :			
Other securities	494,411	494,411	—
Total assets	\$2,862,767	\$2,862,767	\$ —
Liabilities:			
Notes and accounts payable	\$1,217,714	\$1,217,714	\$ —
Bonds	163,412	161,941	(1,471)
Long-term loans	230,770	228,711	(2,051)
Total liabilities	\$1,611,896	\$1,608,375	\$(3,522)
Derivatives* ³ :			
Not subject to hedge accounting	\$ (1,226)	\$ (1,226)	\$ —
Subject to hedge accounting	2,786	2,786	—
Total derivative transactions	\$ 1,561	\$ 1,561	\$ —

*1 Cash is omitted from the notes. Time deposits, short-term loans, current portion of long-term loans, commercial papers, and current portion of bonds are omitted from the notes because their fair values approximate their carrying amounts due to their short maturities.

*2 Stocks and other securities without market quotations are not included in "Investment securities*²." The carrying amount of such financial instruments on the consolidated balance sheet is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Unlisted equity securities	¥ 6,071	¥ 6,225	\$ 49,604
Investments in unconsolidated subsidiaries and affiliates	9,017	8,997	73,674
Total	¥15,089	¥15,222	\$123,286

*3 Receivables and payables arising from derivative transactions are presented as a net value with the amount in parentheses representing a net liability position.

The redemption schedule for time deposits and notes and accounts receivable with maturity dates at March 31, 2022 is summarized as follows:

	Millions of yen	
	Within 1 year	Over 1 year and less than 5 years
Time deposits	¥ 50,111	¥—
Notes and accounts receivable	289,862	—
Total	¥339,974	¥—

	Thousands of U.S. dollars	
	Within 1 year	Over 1 year and less than 5 years
Time deposits	\$ 409,437	\$—
Notes and accounts receivable	2,368,347	—
Total	\$2,777,792	\$—

With respect to the redemption schedule of bonds, long-term loans and finance lease obligations, please refer to Note 11.

The fair value of financial instruments is classified into the following three levels based on the observability and materiality of the inputs used to determine fair value.

Level 1 fair value:

In the inputs related to the calculation of observable fair value, fair value is calculated based on quoted market prices for assets or liabilities whose fair value are formed in an active market.

Level 2 fair value

In the inputs related to the calculation of observable fair value, fair value is calculated by using inputs related to the calculation of fair value other than Level 1 input.

Level 3 fair value

Fair value is calculated using inputs related to the calculation of unobservable fair value.

When multiple inputs that have a significant effect on fair value are used, fair value is classified into the level with the lowest priority in the fair value calculation among the levels to which those inputs belong.

Financial instruments recorded on the consolidated balance sheet at fair value.

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Other securities:				
Shares	¥60,511	¥ —	¥—	¥60,511
Derivatives:				
Forward exchange contracts	—	191	—	191
Total assets	¥60,511	¥191	¥—	¥60,703

	Thousands of U.S. dollars			
	2022			
	Level 1	Level 2	Level 3	Total
Investments in securities:				
Other securities:				
Shares	\$494,411	\$ —	\$—	\$494,411
Derivatives:				
Forward exchange contracts	—	1,561	—	1,561
Total assets	\$494,411	\$1,561	\$—	\$495,980

Financial instruments other than those recorded on the consolidated balance sheets at fair value

	Millions of yen			
	2022			
	Level 1	Level 2	Level 3	Total
Notes and accounts receivable	¥—	¥289,862	¥—	¥289,862
Total assets	¥—	¥289,862	¥—	¥289,862
Notes and accounts payable	¥—	¥149,036	¥—	¥149,036
Bonds	—	19,820	—	19,820
Long-term loans	—	27,992	—	27,992
Total liabilities	¥—	¥196,849	¥—	¥196,849

	Thousands of U.S. dollars			
	2022			
	Level 1	Level 2	Level 3	Total
Notes and accounts receivable	\$—	\$2,368,347	\$—	\$2,368,347
Total assets	\$—	\$2,368,347	\$—	\$2,368,347
Notes and accounts payable	\$—	\$1,217,714	\$—	\$1,217,714
Bonds	—	161,941	—	161,941
Long-term loans	—	228,711	—	228,711
Total liabilities	\$—	\$1,608,375	\$—	\$1,608,375

Explanation of valuation techniques used, and inputs related to the calculation of fair value.

(i) Notes and accounts receivable

The fair value of notes and accounts receivable is calculated based on the present values classified by the certain period of times which are discounted respectively by the interest rate determined taking into account the remaining period to maturity and is classified as Level 2.

(ii) Investment securities

Listed stocks are valued by using quoted market prices. Since listed stocks are traded in active markets, their fair value is classified as Level 1.

(iii) Derivative

Fair value is calculated based on prices, etc., provided by counterparty financial institutions and is classified as Level 2.

The fair value of foreign currency forward exchange contracts and other derivatives that applied the allocation method is included in the fair value of the underlying accounts receivable and payable.

The fair value of interest rate swaps that applied the exceptional accounting treatment is included in the long-term loans because it is accounted for as if the interest rates applied to the swaps had originally applied to the underlying long-term loans.

(iv) Notes and accounts payable

The fair value of notes and accounts payable is calculated based on the present values classified by the certain period of times which are discounted respectively by the interest rate determined taking into account the remaining period to maturity and is classified as Level 2.

(v) Bonds

The fair value of bonds issued by the Company is calculated based on quoted market prices and classified as Level 2.

(vi) Long-term loans

The fair value of long-term loans payable is calculated based on the present value of the total of principal and interest discounted by the incremental borrowing rate and is classified as Level 2.

19. DERIVATIVES AND HEDGING ACTIVITIES

The currency-related derivatives positions outstanding for which hedge accounting has not been applied at March 31, 2022 and 2021 are as follows:

		Millions of yen			
		2022			
Classification	Transaction	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value	Valuation gain (loss)
	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	¥13,772	¥—	¥(353)	¥(353)
	Yen	57,411	—	(64)	(64)
	Euro	13,206	—	298	298
	RMB	801	—	(45)	(45)
	Others	173	—	(11)	(11)
	Buying:				
	U.S. dollars	1,955	—	29	29
	Yen	2,310	—	(20)	(20)
	Euro	239	—	10	10
	Others	173	—	7	7
Total		¥90,043	¥—	¥(150)	¥(150)

		Millions of yen			
		2021			
Classification	Transaction	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value	Valuation gain (loss)
	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	¥ 6,980	¥—	¥(130)	¥(130)
	Yen	2,540	—	(38)	(38)
	Euro	9,977	—	(402)	(402)
	RMB	1,241	—	(48)	(48)
	Others	190	—	(5)	(5)
	Buying:				
	U.S. dollars	1,263	—	(14)	(14)
	Yen	1,616	—	19	19
	Euro	442	—	22	22
	Others	108	—	3	3
Total		¥24,362	¥—	¥(594)	¥(594)

		Thousands of U.S. dollars			
		2022			
Classification	Transaction	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value	Valuation gain (loss)
	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	\$112,526	\$—	\$(2,884)	\$(2,884)
	Yen	469,082	—	(523)	(523)
	Euro	107,901	—	2,435	2,435
Over-the-counter transactions	RMB	6,545	—	(368)	(368)
	Others	1,414	—	(90)	(90)
	Buying:				
	U.S. dollars	15,974	—	237	237
	Yen	18,874	—	(163)	(163)
	Euro	1,953	—	82	82
	Others	1,414	—	57	57
Total		\$735,706	\$—	\$(1,226)	\$(1,226)

The currency-related derivatives positions outstanding for which hedge accounting has been applied at March 31, 2022 and 2021 are as follows:

			Millions of yen		
			2022		
Method for hedge accounting	Transaction	Major hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars		¥ —	¥—	¥ —
	Euro	Accounts receivable	359	—	(16)
	RMB		111	—	(6)
Deferral hedge accounting	Others		11	—	(0)
	Buying:				
	U.S. dollars		6,185	—	349
	Euro	Accounts payable	337	—	14
	RMB		7	—	0
	Others		34	—	1
	Foreign currency forward exchange contracts:				
	Selling:				
	Euro	Accounts receivable	43	—	(*)
	Others		12	—	(*)
Allocation method for foreign currency forward exchange contracts (Note 2(p))	Buying:				
	Euro		82	—	(*)
	THB	Accounts payable	81	—	(*)
	Others		7	—	(*)
Total			¥7,276	¥—	¥341

Method for hedge accounting	Transaction	Major hedged item	Millions of yen		
			2021		
			Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
	Foreign currency forward exchange contracts:				
	Selling:				
Deferral hedge accounting	U.S. dollars		¥ —	¥—	¥ —
	Euro	Accounts receivable	299	—	(6)
	RMB		447	—	(17)
	Others		41	—	(1)
	Buying:				
	U.S. dollars		1,423	—	78
	Euro	Accounts payable	149	—	2
	RMB		0	—	0
Others	118		—	1	
Foreign currency forward exchange contracts:					
Allocation method for foreign currency forward exchange contracts (Note 2(p))	Selling:				
	Euro		10	—	(*)
	RMB	Accounts receivable	0	—	(*)
	Others		4	—	(*)
	Buying:				
	Euro		155	—	(*)
	THB	Accounts payable	116	—	(*)
	Others		62	—	(*)
Total					
			¥2,829	¥—	¥ 56

Method for hedge accounting	Transaction	Major hedged item	Thousands of U.S. dollars		
			2022		
			Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
	Foreign currency forward exchange contracts:				
	Selling:				
Deferral hedge accounting	U.S. dollars		\$ —	\$—	\$ —
	Euro	Accounts receivable	2,933	—	(131)
	RMB		907	—	(49)
	Others		90	—	(1)
	Buying:				
	U.S. dollars		50,535	—	2,852
	Euro	Accounts payable	2,753	—	114
	RMB		57	—	0
Others	278		—	8	
Foreign currency forward exchange contracts:					
Allocation method for foreign currency forward exchange contracts (Note 2(p))	Selling				
	Euro	Accounts receivable	351	—	(*)
	Others		98	—	(*)
	Buying:				
	Euro		670	—	(*)
	RMB	Accounts payable	662	—	(*)
	Others		57	—	(*)
	Total				
			\$59,449	\$—	\$2,786

(*): The fair value of foreign currency forward exchange contracts that qualify for the allocation method is included in the fair value of the underlying accounts receivable and payable.

The interest-related derivatives positions outstanding for which hedge accounting has been applied at March 31, 2022 and 2021 are as follows:

			Millions of yen		
			2022		
Method for hedge accounting	Transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Swap rates applied to underlying long-term loans	Interest-rate swap transactions (pay—fixed, receive—variable)	Long-term loans	¥4,000	¥—	(*)

			Millions of yen		
			2021		
Method for hedge accounting	Transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Swap rates applied to underlying long-term loans	Interest-rate swap transactions (pay—fixed, receive—variable)	Long-term loans	¥8,000	¥4,000	(*)

			Thousands of U.S. dollars		
			2022		
Method for hedge accounting	Transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Fair value
Swap rates applied to underlying long-term loans	Interest-rate swap transactions (pay—fixed, receive—variable)	Long-term loans	\$32,682	\$—	(*)

(*): Since interest-rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying long-term loans, their fair values were included in the fair value of the long-term loans.

20. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2022 and 2021 totaled ¥5,539 million (\$45,257 thousand) and ¥5,613 million, respectively.

21. OPERATING LEASES

Future minimum lease payments subsequent to March 31, 2022 under noncancelable operating leases are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2023	¥1,309	\$10,695
2024 and thereafter	8,649	70,668
Total	¥9,958	\$81,363

22. CONTINGENT LIABILITIES

At March 31, 2022, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans of customers and other in the aggregate amount of ¥111 million (\$907 thousand).

In addition, at March 31, 2022, the Company and its consolidated subsidiaries had contingent liabilities arising from notes discounted with banks in the amount of ¥125 million (\$1,021 thousand).

23. AMOUNTS PER SHARE

Amounts per share at March 31, 2022 and 2021 and for the years then ended are as follows:

	Yen		U.S. dollars
	2022	2021	2022
Profit attributable to owners of parent:			
Basic	¥ 213.46	¥151.91	\$ 1.74
Diluted	—	—	—
Net assets	2,868.22	2,670.09	23.44
Cash dividends applicable to the year	54.00	46.00	0.44

Basic profit attributable to owners of parent per share has been computed based on the profit attributable to owners of parent available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted profit attributable to owners of parent per share for the years ended March 31, 2022 and 2021 has not been presented because no potentially dilutive shares of common stock were outstanding.

Net assets per share have been computed based on the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of basic profit attributable to owners of parent per share for the years ended March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Profit attributable to owners of parent	¥25,939	¥18,829	\$211,937
Profit available for distribution to shareholders of common stock	25,939	18,829	211,937
Weighted-average number of shares	121,522,286	123,955,784	

24. CASH AND TIME DEPOSITS

(a) A reconciliation of cash and time deposits in the accompanying consolidated balance sheets at March 31, 2022 and 2021 and cash and cash equivalents in the accompanying consolidated statements of cash flows for the years then ended is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Cash and time deposits	¥54,211	¥49,254	\$442,937
Time deposits with maturities of more than three months	(874)	(701)	(7,141)
Cash and cash equivalents	¥53,336	¥48,553	\$435,787

(b) Summary of assets and liabilities of companies, which were excluded from the scope of consolidation as a result of sales of shares during the year ended March 31, 2021

1) Nagase Medicals Co., Ltd.

The following is the summary of assets and liabilities at the time of sales as well as the cost of selling the shares and income from the sales of shares associated with Nagase Medicals Co., Ltd. no longer being a consolidated subsidiary due to the sales of its shares for the year ended March 31, 2021.

	Millions of yen	Thousands of U.S. dollars
	2021	
Current assets	¥ 2,434	\$ 21,985
Non-current assets	1,946	17,577
Current liabilities	(2,335)	(21,091)
Non-current liabilities	(3,010)	(27,188)
Gain on sales of shares	1,314	11,869
Selling price	350	3,161
Collection of loans to subsidiaries	4,014	36,257
Cash and cash equivalents	(0)	0
Proceeds from sales of shares of subsidiaries	¥ 4,364	¥ 39,418

2) Nagase Logistics Co., Ltd.

The following is the summary of assets and liabilities at the time of sales as well as the cost of selling the shares and income from the sales of shares associated with Nagase Logistics Co., Ltd. which became affiliates accounted for by the equity method due to the partial sales of its shares for the year ended March 31, 2021.

	Millions of yen	Thousands of U.S. dollars
	2021	
Current assets	¥ 859	\$ 7,759
Non-current assets	1,810	16,349
Current liabilities	(2,068)	(18,679)
Non-current liabilities	(51)	(461)
Investment account after sales of shares	(82)	(741)
Gain on sales of shares	1,342	12,122
Selling price	1,810	16,349
Proceeds from borrowings of subsidiaries	1,870	16,891
Cash and cash equivalents	(34)	(307)
Proceeds from sales of shares of subsidiaries	¥ 3,646	\$ 32,933

25. SEGMENT INFORMATION

(a) Overview of reportable segments

(Change in Business Segments)

Effective from the beginning of the current fiscal year, the Electronics Segment has been renamed the Electronics & Energy Segment, and the Mobility & Energy Segment has been renamed the Mobility Segment, in addition to changing the names of these segments, the following business categories were changed.

For the purpose of promoting development of new businesses, the Energy Business Office previously classified under the Mobility & Energy Segment, as well as the Advanced Information and Communications Project Team previously classified under the Others/Corporate category, have been unified in the newly established Information and Communication-Energy Office, classified under the Electronics & Energy Segment. In addition, for the purpose of expanding market share and improving synergies, the fluorine business in the Specialty Chemicals Division, which was previously classified under the Functional Materials Segment, has been moved to the Electronics & Energy Segment.

Segment information provided for the previous consolidated fiscal year is based on post-change classification methods.

The following describes the major products and services handled by each reportable segment.

The Functional Materials segment is engaged in the sales of materials for paints/inks, and adhesives, urethane materials and auxiliary materials, plastic materials, plastic additives, industrial oil solutions, water processing raw materials, surfactant raw materials, fluorochemicals, encapsulant materials, 5G materials, silicone materials, environmental solutions and environment-related commercial products, sintered metal filters, and more for the paints/inks, resins, urethane foam, organic synthesis, surfactants, electronics chemicals, communications equipment, water processing, metal processing, plastic and film processing, and other industries.

The Advanced Materials & Processing Segment is engaged in the sales of dyestuffs, pigments, functional pigments, digital print processing products, thermoplastic resins, thermosetting resins, automobile refinish paints, conductive coatings, synthetic rubber, inorganic materials, plastics products, resin molding tools/dies, and more for the dye/additive, digital print processing material, fiber processing, raw resin material, resin molding, functional film and sheet, appliance and office automation device, electronics, packaging material, construction material, and other industries.

The Electronics & Energy Segment is engaged in the sales of formulated epoxy resins, fluorine products, precision abrasives, semiconductor assembly materials and devices, adhesives and encapsulant materials, display panel components and devices, chemical management equipment for display manufacturing processes, low-temperature/vacuum equipment, liquid state analysis equipment, LEDs, 3D printing products, design and manufacture of storage battery systems, solar panels, optical wireless communication equipment, and other products for the semiconductor, electronic component, AR/VR, environmental energy, 3D printing, heavy electrical and light electrical, HDD, automotive and aircraft, display, touch panel, housing, lighting, storage battery, energy, renewable energy, security device, large-scale commercial facility, and other industries. Its main services include energy management system proposals, battery assessments, and health care services.

The Mobility Segment is engaged in the sales of plastic products in general, materials for secondary batteries, interior and exterior materials and components, materials for functional components, products for electrification, sensor components, in-vehicle electronics products, in-vehicle display-related components, self-driving-related products, and other products for the overall mobility industry and related industries.

The Life & Healthcare segment is engaged in the sale of pharmaceutical/agricultural chemicals and materials, research products, in vitro diagnostics, enzymes, food additives, food ingredients, sports nutrition products, nutrient premixes, additives for cosmetics, feeds, surfactants, and medical appliances for the pharmaceutical, food and beverage, cosmetics, agricultural, toiletries, and health care industries. The segment offers radiation measurement as one of its main services. In addition, this segment sells cosmetics, health foods, and beauty foods directly to consumers.

(Application of Accounting Standards for Revenue Recognition)

As described in (Accounting Changes), at the beginning of the current consolidated fiscal year, the Company adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), changing its accounting method for revenue recognition. As a result, measurement methods have similarly been changed for business segment profit and loss.

Segment information provided for the previous consolidated fiscal year is based on the changed profit or loss measurement method.

(b) Calculation methods of net sales, income or loss, assets, and other items by reportable segments

The accounting policies of reportable segments are generally identical to those described in Note 2. Reportable segment income corresponds to operating income in the consolidated statements of income. Intersegment internal income and transfers are determined based on the values of transactions at actual market prices.

(c) Information on net sales, income or loss, assets and other items for each reportable segment

Information by reportable segments for the year ended March 31, 2022 and 2021 are as follows:

Millions of yen											
2022											
Reportable Segments											
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total	Others	Total	Corporate	Adjustments	Consolidated
Sales to customers	¥ 99,874	¥257,283	¥128,131	¥103,389	¥191,634	¥780,313	¥ 244	¥780,557	¥ —	¥ —	¥780,557
Intersegment sales and transfers	711	777	2,319	2,389	452	6,649	4,649	11,298	—	(11,298)	—
Net sales	100,585	258,060	130,450	105,778	192,087	786,962	4,893	791,856	—	(11,298)	780,557
Segment income	7,823	10,858	10,278	4,131	9,429	42,521	100	42,621	(7,690)	331	35,263
Segment assets	83,793	164,249	77,163	68,492	218,060	611,759	2,838	614,598	190,048	(64,926)	739,720
Other items:											
Depreciation and amortization other than amortization of goodwill	465	1,447	1,479	342	5,959	9,694	16	9,711	1,505	—	11,216
Amortization of goodwill	111	178	42	—	2,145	2,478	—	2,478	—	—	2,478
Unamortized balance of goodwill	1,853	—	452	—	27,186	29,492	—	29,492	—	—	29,492
Investments in affiliates accounted for by the equity method	1,300	1,828	2,761	1,403	3,139	10,432	95	10,528	—	(0)	10,528
Increase in property, plant and equipment, net and intangible assets	562	1,742	1,610	558	2,435	6,909	25	6,934	3,791	—	10,725

Millions of yen											
2021											
Reportable Segments											
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total	Others	Total	Corporate	Adjustments	Consolidated
Sales to customers	¥75,294	¥209,715	¥110,770	¥78,783	¥150,331	¥624,895	¥ 349	¥625,245	¥ —	¥ —	¥625,245
Intersegment sales and transfers	680	1,546	1,951	2,069	328	6,577	5,059	11,636	—	(11,636)	—
Net sales	75,974	211,262	112,722	80,853	150,659	631,472	5,408	636,881	—	(11,636)	625,245
Segment income	4,712	7,311	8,408	1,851	6,512	28,795	157	28,952	(7,479)	443	21,916
Segment assets	79,048	144,135	69,326	53,659	165,934	512,104	2,738	514,843	160,510	(34,766)	640,587
Other items:											
Depreciation and amortization other than amortization of goodwill	472	1,040	1,496	280	5,788	9,077	104	9,181	1,827	—	11,008
Amortization of goodwill	105	89	40	—	2,108	2,344	—	2,344	—	—	2,344
Unamortized balance of goodwill	1,787	720	451	—	27,257	30,216	—	30,216	—	—	30,216
Investments in affiliates accounted for by the equity method	1,981	1,728	3,170	1,237	2,995	11,113	82	11,196	—	(1)	11,195
Increase in property, plant and equipment, net and intangible assets	399	1,974	1,222	242	5,744	9,583	11	9,595	1,160	—	10,755

Thousands of U.S. dollars

2022											
Reportable Segments											
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total	Others	Total	Corporate	Adjustments	Consolidated
Sales to customers	\$816,031	\$2,102,157	\$1,046,907	\$844,750	\$1,565,765	\$6,375,627	\$ 1,994	\$6,377,621	\$ —	\$ —	\$6,377,621
Intersegment sales and transfers	5,809	6,349	18,948	19,520	3,693	54,326	37,985	92,311	—	—	—
Net sales	821,840	2,108,506	1,065,855	864,270	1,569,466	6,429,953	39,979	6,469,940	—	—	6,377,621
Segment income	63,919	88,716	71,460	12,607	53,207	236,964	1,283	238,255	(63,428)	4,241	179,067
Segment assets	684,639	1,342,013	630,468	559,621	1,781,682	4,998,439	23,188	5,021,636	1,552,807	—	6,043,958
Other items:											
Depreciation and amortization other than amortization of goodwill	3,799	11,823	12,084	2,794	48,689	79,206	131	79,345	12,297	—	91,641
Amortization of goodwill	907	1,454	343	—	17,526	20,247	—	20,247	—	—	20,247
Unamortized balance of goodwill	15,140	—	3,693	—	222,126	240,967	—	240,967	—	—	240,967
Investments in affiliates accounted for by the equity method	10,622	14,936	22,559	11,463	25,648	85,236	776	86,020	—	—	86,020
Increase in property, plant and equipment, net and intangible assets	4,592	14,233	13,155	4,559	19,895	56,451	204	56,655	30,975	—	87,630

(d) Geographical information

Net sales by country or region for the years ended March 31, 2022 and 2021 are summarized as follows:

Millions of yen										
2022										
Reportable Segments										
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Others (Note) 3	Total	Composition (%)		
Japan	¥40,971	¥ 69,123	¥ 50,640	¥ 31,555	¥ 57,825	¥244	¥250,360	32.1		
Greater China	11,987	117,092	54,354	30,534	3,594	—	217,562	27.9		
ASEAN	26,580	58,949	7,267	29,416	3,493	—	125,707	16.1		
Americas	16,703	6,172	5,221	10,249	79,243	—	117,589	15.1		
Europe	2,634	4,598	4,071	1,466	47,083	—	59,855	7.7		
Other	996	1,347	6,575	167	394	—	9,481	1.1		
Revenues from contracts with customers	99,874	257,283	128,131	103,389	191,634	244	780,557	100.0		
Net sales to customers	99,874	257,283	128,131	103,389	191,634	244	780,557	100.0		

Millions of yen										
2021										
Reportable Segments										
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Others (Note) 3	Total	Composition (%)		
Japan	¥31,951	¥ 60,837	¥ 51,014	¥24,258	¥ 53,326	¥349	¥221,737	35.5		
Greater China	9,741	93,581	40,298	25,771	2,677	—	172,071	27.5		
ASEAN	19,132	45,756	7,158	20,692	2,887	—	95,626	15.3		
Americas	12,331	3,760	4,834	6,877	58,401	—	86,204	13.8		
Europe	1,600	4,622	2,870	1,043	32,722	—	42,859	6.9		
Other	537	1,156	4,595	139	316	—	6,745	1.0		
Revenues from contracts with customers	75,294	209,715	110,770	78,783	150,331	349	625,245	100.0		
Net sales to customers	75,294	209,715	110,770	78,783	150,331	349	625,245	100.0		

Thousands of U.S. dollars

	2022							Total	Composition (%)
	Reportable Segments								
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Others (Note) 3			
Japan	\$334,758	\$ 564,777	\$ 413,759	\$257,823	\$ 472,465	\$1,994	\$2,045,592	32.1	
Greater China	97,941	956,712	444,105	249,481	29,365	—	1,777,613	27.9	
ASEAN	217,175	481,649	59,376	240,346	28,540	—	1,027,102	16.1	
Americas	136,474	50,429	42,659	83,741	647,463	—	960,773	15.1	
Europe	21,521	37,568	33,263	11,978	384,696	—	489,051	7.7	
Other	8,138	11,006	53,722	1,364	3,219	—	77,465	1.1	
Revenues from contracts with customers	816,031	2,102,157	1,046,907	844,750	1,565,765	1,994	6,377,621	100.0	
Net sales to customers	816,031	2,102,157	1,046,907	844,750	1,565,765	1,994	6,377,621	100.0	

Notes:

1. Net sales are categorized by country or region, according to the location of the customer.

2. Major countries and regions in each category other than Japan

(1) Greater China China, Hong Kong, Taiwan

(2) ASEAN Thailand, Vietnam, Singapore

(3) Americas U.S., Mexico

(4) Europe U.K., Germany

(5) Other Korea

3. "Others" is a business segment consisting of businesses not included in Reportable Segments, and includes information processing services, and professional service. Logistics services were also included in 2021.

Information of major customers not presented here, since no single customer accounts for 10% or more of consolidated net sales.

Property, plant and equipment by country or region as of March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Japan	¥62,185	¥61,846	\$508,089
Other	10,369	9,050	84,721
Total	¥72,554	¥70,896	\$592,810

(e) Information on loss on impairment of fixed assets per reportable segments

Loss on impairment of fixed assets for the years ended March 31, 2022 and 2021 is as follows:

	Millions of yen							Eliminations or corporate	Total
	2022								
	Reportable Segments								
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total	Others		
Loss on impairment of fixed assets	¥—	¥2,974	¥—	¥—	¥—	¥2,974	¥—	¥—	¥2,974

The Company no longer expects the profitability originally anticipated for the product and manufacturing process development business related to resins in the Advanced Materials & Processing segment. Therefore, the Company has written down the book value of goodwill and other intangible fixed assets related to this business to their recoverable amounts, recording impairment losses in the amount of ¥2,911 million (\$23,785 thousand).

Millions of yen									
2021									
Reportable Segments									
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total	Others	Eliminations or corporate	Total
Loss on impairment of fixed assets	¥—	¥843	¥973	¥—	¥—	¥1,817	¥—	¥7	¥1,824

Due to decreasing profitability, the carrying values of the assets for the color former manufacturing business in the Advanced Materials & Processing segment were reduced to their recoverable amounts and impairment losses of ¥843 million (\$7,614 thousand) were recognized.

With respect to the assets for polyimide film glass bonding business in the Electronics & Energy segment, which are held by a subsidiary in Taiwan, estimated future cash flows were less than their book values. As a result, the carrying values of these assets were reduced to their recoverable amounts and impairment losses of ¥951 million (\$8,590 thousand) were recognized.

Thousands of U.S. dollars									
2022									
Reportable Segments									
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total	Others	Eliminations or corporate	Total
Loss on impairment of fixed assets	\$—	\$24,299	\$—	\$—	\$—	\$24,299	\$—	\$—	\$24,299

26. RELATED PARTY TRANSACTION

A consolidated subsidiary of the Company recorded the following transaction with a related party for the year ended March 31, 2022 and 2021:

Name of related party	Relationship with the related party	Description of the transaction	Account	Millions of yen		Thousands of U.S. dollars
				2022	2021	2022
315 Fullerton LLC* ¹	A director of a consolidated subsidiary of the Company owns a majority of the voting rights of the company.	Rental of real estate* ²	Rent payment for real estate	¥36	¥34	\$294
Total				¥36	¥34	\$294

*1 Mr. Donald K. Thorp, a director of Prinova Group, LLC, which is a consolidated subsidiary of the Company, owns 77% of the voting rights.

*2 Rent is determined taking the transactions in the neighboring area into consideration.

27. SUBSEQUENT EVENTS

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2022, was approved at a meeting of the shareholders held on June 20, 2022:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥30.0 = U.S.\$0.25 per share)	¥3,600	\$29,414

Independent Auditor's Report



Independent Auditor's Report

The Board of Directors
NAGASE & CO., LTD.

Opinion

We have audited the accompanying consolidated financial statements of NAGASE & CO., LTD. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Impairment loss on goodwill and other intangible assets recognized as a result of the acquisition of Interfacial Consultants LLC	
Description of Key Audit Matter	Auditor's Response
As described in "Loss on Impairment of Fixed Assets" in the Notes to Consolidated Statements of Income and in "Information on Loss on Impairment of Fixed Assets per Reportable Segments" in the Notes to Segment Information, for the fiscal year ended March 31, 2022, NAGASE & CO., LTD. (the Company) recorded loss on impairment of fixed assets of ¥2,974 million on goodwill, other intangible assets, and others recorded in connection with the acquisition of Interfacial Consultants LLC ("IFC").	We performed the following audit procedures with respect to the impairment loss on goodwill and other intangible assets recognized as a result of the acquisition of IFC. <ul style="list-style-type: none">Assessed the effectiveness of design and operation of internal control established by the Company with respect to the assessment of indications of impairment and for recognizing and measuring impairment on goodwill and other intangible assets;

As described in “Information about Significant Accounting Estimates pertaining to Identified Items” in the Notes of “Significant Accounting Estimates” to Consolidated Financial Statements, when there any indications of impairment exists, the Company assesses whether an impairment loss should be recognized, and if so, the carrying amount of the asset or asset group is reduced to its recoverable amount and an impairment loss is recorded. The recoverable amount is the higher of net realizable value or value in use.

In March 2020, the Company acquired IFC, which has an innovative technology platform in the field of resins and other products, and develops products, technologies, and manufacturing processes tailored to customer needs, and made it a consolidated subsidiary. However, IFC’s operating results for the fiscal years ended December 31, 2020 and 2021 were affected by spread of the coronavirus pandemic in North America and the resulting semiconductor supply shortages, which resulted in operating losses. An impairment loss was recorded because the total estimated future cash flows fell below the carrying amount of the asset group, including goodwill and other intangible assets. In measuring the impairment loss on goodwill and other intangible assets, the value in use was used as the recoverable amount. Value in use is calculated as the discounted present value of future cash flows. Future cash flows are estimated based on the business plan developed by IFC, taking into account future uncertainties. Key assumptions used in such estimates are sales volumes to major customers, cost of sales ratios, and discount rates.

Because changes in these key assumptions could result in changes in the amount of impairment losses recorded and because the value-in-use calculation is subject to uncertainty and requires management judgment, we determined that the impairment loss on goodwill and other intangible assets recognized as a result of the acquisition of IFC was a key audit matter.

- Examined the consistency of the future cash flows underlying the value-in-use estimates with the business plan approved by IFC’s management and the parent company’s Board of Directors;
- Compared the business plan with the actual results of previous years and analysis of factors that may cause deviations from the plan in order to assess the effectiveness of the estimation process for the business plan development;
- Inquired of the persons in charge of developing the business plan and the management of the parent company’s Corporate Management Division to determine whether any key assumptions have been changed from prior years and the reasonableness of such changes;
- Evaluated the sales volume to major customers in the business plan for consistency with the most recent negotiations with customers, information on the most recent orders received, and available external data;
- Conducted a trend analysis of the cost of sales ratio in the business plan based on past results;
- Engaged valuation experts from our network of firms to evaluate the consistency of the discount rate used in the value-in-use calculation with the input and external information used in the calculation of the discount rate;
- Assessed the consistency of the above key assumptions with each other; and
- Performed a sensitivity analysis of key assumptions to assess their impact on value in use.



Other Information

The other information comprises the information included in a disclosure document that contains audited financial statements but does not include the financial statements and our auditor's report thereon.

We have concluded that the other information does not exist. Accordingly, we have not performed any work related to the other information.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

July 29, 2022

三ツ木 最文

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Certified Public Accountant

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